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**Operational activities of the United Nations for international development cooperation: follow-up to the policy recommendations of the General Assembly and the Council**

# Funding options and modalities for financing operational activities for development of the United Nations system***

## Report of the Secretary-General

*Summary*

The present report is submitted in response to paragraph 24 of General Assembly resolution 59/250 of 22 December 2004, in which the Assembly requested the Secretary-General to submit to the Assembly through the substantive session of the Economic and Social Council in 2005, a report exploring the various funding options for increasing financing for operational activities of the United Nations system, and examining ways to enhance the predictability, long-term stability and adequacy of funding for the United Nations system's development cooperation, while preserving the advantages of the current funding modalities. It complements the report of the Secretary-General on the "Comprehensive statistical data on operational activities for development for 2003" (E/2005/57-A/60/74). The report does not address funding of individual agencies. It is intended, rather, to stimulate debate on funding modalities for the operational activities of the system as a whole, as a key component of the overall effort to further the implementation of the global development agenda emerging from United Nations conferences and summits, to which the High-level Plenary Meeting of the General Assembly in September 2005, is expected to impart new momentum.

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# I. The context

1. Funding for the United Nations system's operational activities for development should be seen in the context of the current development challenges facing the international community.

2. The Secretary-General, in his report to the high-level segment of the 2005 session of the Economic and Social Council (E/2005/56) has emphasized the need to gear the work of the entire United Nations system towards the advancement of the broad United Nations development agenda, of which the Millennium Development Goals are a major, integral part.

3. The United Nations system continues to be an important source of intellectual leadership on development. Building on this role, its accumulated country-level experience, the substantive capacities of its structures and staff, the fundamental characteristics of its operations (that is, their universal, voluntary and grant nature, their neutrality and their multilateralism), its flexibility and its respect of and support for national ownership enable it to provide a unique service to developing countries. Because of these characteristics, the system is especially well suited to assist Governments in making effective use of external development support. The system is also expected to exercise leadership, especially in supporting national development capacity, although, in order to enable developing countries and the international community to reap the full benefit of this contribution, it is imperative that it be provided with adequate resources to effectively perform its key role in development.

4. In the 2000 Millennium Declaration, world leaders expressed confidence that humanity could, in the years ahead, make measurable progress towards development, security, disarmament, human rights, democracy and good governance. In September 2005, world leaders will have a unique opportunity, within this broad perspective, to reaffirm and commit themselves to implementing the development goals set five years ago and to move decisively to advance the broad vision of the shared development priorities that emerged from the comprehensive normative framework mapped out through the United Nations conferences and summits over the last 15 years.

5. In his report on the implementation of the Millennium Declaration submitted in preparation for the September 2005 Summit, "In larger freedom: towards development, security and human rights for all" (A/59/2005), the Secretary-General called on each developing country with extreme poverty to adopt, by 2006, a comprehensive national strategy to meet the Millennium Development Goals targets for 2015. He also called on all developed countries that have not already done so to establish timetables to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA) by no later than 2015, starting with significant increases no later than 2006 and reaching at least 0.5 per cent by 2009.

6. The global partnership for development advanced in the Millennium Declaration and furthered in the Monterrey Consensus adopted at the International Conference on Financing for Development in 2002 is based on mutual responsibility and accountability of all actors, Governments, United Nations organizations, international financial institutions, the private sector and civil society to work together to achieve the agreed development goals. The Secretary-General has urged all Member States and other development actors, including the organizations of the

United Nations system, to scale up action to make this global agenda genuinely operational and capable of producing concrete results.

7. This requires both major domestic efforts as well as increased international support. All types of resources for development, national and international, public and private, financial and human, technological and organizational, will need to be mobilized at the required levels.

8. There are some positive trends in this global partnership. Policy reforms and improved governance have become watchwords throughout the developing world. There have also been recent improvements in the overall levels of ODA, which reached $78.6 billion in 2004 (0.25 per cent of the national income of donor countries). This is encouraging, especially after years of declining trends. Nevertheless, levels of ODA still fall short of the 0.33 per cent of the late 1980s, and the long-standing target of 0.7 per cent.[1] A significant aspect of this failure results from currency fluctuations, debt write-offs and expenditures on security and emergency relief. In addition to the five countries currently meeting or exceeding the 0.7 target, seven more donors have pledged to reach the target before 2015. Moreover, the European Union announced in May 2005 its decision to set a new, intermediate target for ODA of 0.56 per cent by 2010, in order to achieve 0.7 by 2015. This decision represents additional funding of €20 billion euros by 2010.

9. In his above-mentioned report, the Secretary-General noted that, although "the most direct way to increase ODA volumes is to allocate increasing shares of donor countries' national budgets to aid", new ways to scale-up development financing are well worth exploring.[2] At the initiative of Brazil, Chile, France, Germany and Spain, a "menu of options" has been developed.[3] In the same broad context, the Secretary-General, in his report for the High-level Plenary Meeting in September 2005, has supported the launch of the International Finance Facility proposed by the United Kingdom of Great Britain and Northern Ireland. The Facility is intended as a temporary framework, which would cease financing new operations after 15 years, with a further period of 15 years required to repay all borrowings.

10. Even significantly higher levels of ODA will not suffice to achieve the Millennium Development Goals unless they are combined with higher quality, better delivery, more effective use of resources, simplified and harmonized operational processes, reduced transaction costs and enhanced national ownership.[4]

11. Donors have introduced changes in aid modalities, increasing the use of sector-wide approaches and budget support modalities (general or direct budget support) that significantly affect the way in which development cooperation is programmed, organized, delivered and financed. In both cases, the relationship between governments and donors is altered: government leadership is enhanced; development cooperation is integrated within a government-led policy, document or strategy; and national procedures for disbursement and accountability become applicable to all donors. Donors participate in these new modalities by pooling their financial support in "baskets" that support the overall sector programme or the general budget, moving away from single project funding or area-based programmes, and providing non-earmarked funding consistent with the pursuit of the Millennium Development Goals and other international goals. In programme countries, these new modalities will require a substantial expansion of national capacities to ensure sound programming and prioritization of the use of funds. This, in turn, is likely to increase the demand for the services of the organizations of the

United Nations system, in particular for national capacity-building in development management.

12. Despite recent signs of improvement in overall levels of ODA, not all the channels through which ODA is transmitted have performed equally well. Concern has been expressed in different United Nations governing bodies that donors may be favouring other channels over the United Nations to achieve common goals. Indeed, most donors that have increased their ODA commitments have done so through their bilateral cooperation programmes and selected multilateral organizations. Thus, the fourteenth replenishment of the International Development Association for the period from 2006 to 2008, agreed in February 2005, shows an overall increase in commitments authority of 25 to 30 per cent over the thirteenth replenishment. New mechanisms, such as multi-donor global funds, have been quite successful in mobilizing resources in the pursuit of specific objectives. Grant-based contributions originating from the private sector and civil society (including charitable foundations, corporations, specialized research institutions and other types of non-governmental organizations) are acquiring a growing importance.

13. Created to target specific, well-defined goals, global funds are a prime example of public-private partnerships, since they may include not only public but also private resources. These funds have attracted significant volumes of resources for global purposes, benefiting from broad support from the general public in donor countries because of their easily understood purpose, and making an important contribution to the achievement of the Millennium Development Goals.

14. While global funds are an increasingly important source of funding for some agencies of the system, they constitute supplementary contributions and should not be seen as a substitute for the basic flow of core or regular resources. Additionally, the relationship of such funds with the United Nations system needs to be carefully established and managed. Global funds work closely with the United Nations system and the World Bank, but utilize distinct governance systems. As it continues its reliance on global funds, the United Nations system should further explore the most effective institutional and operational ways of relating to them.

15. The role that the United Nations system is called on to play in development is unique. New and growing demands on its services result not only from the overall pursuit of the United Nations development agenda, but also from the specific new aid modalities being introduced by the donor community. It is essential, under these circumstances, that enhanced bilateral cooperation, increased funding for the international financial institutions (particularly the International Development Association), and the expanded role of global funds be pursued in such a way that they are not in competition with but rather complementary to funding for United Nations development cooperation. In the first instance, ways must be found not to perpetuate the situation where by the volume of voluntary contributions for United Nations operational activities is decided upon at the tail end of the donors' decision-making process as a function not of the quality or priority of its programmes but of what level of funds remain unallocated once assessed, negotiated and other commitments have been taken care of.

16. Action to ensure that the level of United Nations development cooperation funding is adequate should be accompanied by measures to introduce much greater predictability and long-term stability to such funding than are provided under the present modalities. The debate on funding options and modalities to which the

present report is intended to contribute should address, and, hopefully, serve to advance, all of these dimensions in a mutually reinforcing way. The issues involved are complex but the outcome will be critical to the broader political debate on enabling the United Nations system to respond effectively to the demands of our times.

# II. Funding for United Nations development cooperation: patterns and issues

## A. Overall trends in funding

17. Overall contributions to the organizations and bodies of the United Nations system for development assistance have grown slightly over the period from 1992 to 2003, amounting to an average of 11 per cent of total ODA over the whole period and to 13.4 per cent of total ODA in 2003.

18. These positive trends should, however, be interpreted with caution. Detailed analysis[5] shows that these positive trends are mostly the result of the expansion of supplementary funding. Notwithstanding the strong commitment of a few donors to the core budgets of United Nations funds and programmes, core resources of the United Nations system did not grow significantly over the period from 1996 to 2003[6] in nominal terms, fluctuating at around $2 billion a year, except for a net increase in 2003. Supplementary funding has, on the other hand, registered a pattern of continuous growth across the United Nations system, reflecting a marked preference of donor countries for this funding method.

19. While some organizations such as the United Nations Development Programme (UNDP) and some specialized agencies have become more dependent on "non-core" or "supplementary" resources than others, the role of supplementary resources has increased for all organizations of the system.

20. Regular or "core" resources are expected to cover the basic operating infrastructure of an organization, meeting basic expenses that are fundamental for fulfilling its institutional mandates, ensuring an adequate country presence and securing a platform for its country-driven programme activities. The insufficiency of core resources for both administration and programme development represents the single most important constraint on the performance of development entities.

## B. Core/regular resource funding: multi-year financing frameworks and assessed contributions

21. The regular budgets of the specialized agencies, based on assessed contributions, have been locked at historically low levels because of the application of zero or no nominal growth policies. This has constrained their ability to adjust their core capacity to support their response to the new demands emerging from the United Nations development agenda, including the Millennium Development Goals. The specialized agencies, given the instability of funding of the United Nations funds and programmes, can no longer rely only on them to fund "extrabudgetary" activities, as used to be the case until the early 1990s.

22. Multi-year financing frameworks[7] were designed, inter alia, to reduce the volatility of voluntary contributions to the largest programmes and funds. While these instruments have been effective as planning devices, establishing links between resource benchmarks and targets on a multi-year basis, and thus both relating resource requirements with their uses and expected results and enhancing accountability, they have not yet served to assure a sufficient critical mass of "core" contributions.

23. Thus, the conclusion cannot be escaped that present practices governing both assessed contributions and voluntary funding modalities have not succeeded in securing an adequate volume of "core" or "regular" resources for the United Nations development system. The challenge of enabling the system to reach the critical mass of regular resources required to respond effectively to the new demands facing it remains to be met.

## C. Two alternative funding models: the International Fund for Agricultural Development and the United Nations Environment Programme

24. In addition to the multi-year financing frameworks, there are two other funding modalities used in the system: the negotiated replenishment applied by the International Fund for Agricultural Development (IFAD), and the "voluntary indicative scale of contributions" applied by the United Nations Environment Programme (UNEP) on a trial basis.

25. In IFAD's "negotiated replenishment", contributions are first estimated on the basis of a review, undertaken under the responsibility of the Governing Council, of the adequacy of the resources available to the Fund. The Governing Council may invite members of the Fund to make additional contributions. The replenishment process is a complex mechanism, which includes a full review of the policies pursued by the Fund, including the performance-based allocation system for its resources and an assessment of the results and impact of field operations. Since its establishment, IFAD has used a voting structure partly linked to contributions paid by individual donors. The process ensures an ongoing level of votes for the programme countries, while the pool of votes available to donor countries can shift according to the amount of funds provided. Like most organizations with such voting structures, IFAD strives to take its decisions by consensus. If consensus cannot be achieved, countries vote with different voting shares. These shares are also a factor in determining donor representation on the Fund's Executive Board.

26. The "negotiated replenishment" modality is also used for the International Development Association, which is part of the World Bank Group and by some global funds, including the Global Fund to Fight AIDS, Tuberculosis and Malaria. While complex, this modality has shown itself capable, given the necessary political will and the right environment, of mobilizing a significant volume of resources for the concerned entities.

27. As a new experiment, the United Nations Environment Programme (UNEP) has introduced a hybrid modality known as a "voluntary indicative scale of contributions". Since its inception, UNEP has received some funding from the regular budget of the United Nations to finance the expenses of its secretariat, with

programme activities being funded through voluntary contributions to the Environment Fund. In the early years, the contribution from the United Nations regular budget covered more than 20 per cent of UNEP's expenditures. That input has now fallen to about 4 per cent of its total budget. A voluntary indicative scale of contributions has been established to help guide Member States in setting their levels of voluntary contributions for programme expenditures. The voluntary scale applies to the Environment Fund, which finances UNEP's core programme of work, while additional funding is secured through trust funds and other earmarked contributions.

28. Experience with this indicative scale has so far been positive and has led to a significant increase both in the number of countries making voluntary contributions and in the level of their contributions to UNEP.

## D. A short-term solution: the expansion of supplementary funding and its consequences

29. Both United Nations funds and programmes as well as the specialized agencies recognize that increasing the flow of supplementary voluntary contributions, in the form of trust funds, co-financing, and contributions from other multilateral organizations and global funds, is, in present circumstances, not an option, but a necessity.

30. Strategies adopted by organizations of the system to complement their regular resources through supplementary funding include diversification of the donor base, decentralization of some fund-raising functions to the country level, reliance on donor co-financing or "cost-sharing" operations and various combinations of other collaborative arrangements, with the intent of generating funding to cover not only the direct cost of development assistance activities, but also proportionate shares of the programme support costs and to contribute to the coverage of administrative expenses. As part of these diversification strategies, the contributions from the private sector have also grown, and have become particularly significant for some organizations (for example the United Nations Children's Fund (UNICEF) and the United Nations Population Fund (UNFPA)).

31. The increase in the supplementary resources available to the organizations of the United Nations system is serving to augment their total resources available for country-level operations, complementing their regular resources, and enabling the achievement of more ambitious development cooperation goals. Most organizations accept only supplementary funding that fits within their strategic priorities and is consistent with the pursuit of the United Nations development agenda, including the Millennium Development Goals, through the alignment of the common country assessment and United Nations Development Assistance Framework processes towards these goals. Yet, the selectivity and fragmentation inherent in supplementary funding constrains the United Nations system in its pursuit of the full range of the United Nations development agenda.

32. As the funding of core capacities becomes dependent primarily on supplementary funding, maintaining the basic technical and programming capacity of United Nations entities becomes increasingly difficult. Over-reliance on supplementary funding makes United Nations organizations vulnerable to changes in donor preferences and priorities, both in terms of the level and the composition of

funding. This crucial set of problems, and some of the main constraints involved, are briefly analysed below.

### 1. Substitution effect

33. While recognizing the complementary value of "non-core" resources, the General Assembly, in its resolution 59/250, sent a clear signal that supplementary contributions should not be "a substitute for core resources".[8] This call has not, as yet, been adhered to: so far, as indicated above, the increased volume of supplementary funding has not been additional to regular resources, and supplementary funding has, in some cases, taken the place of adequate regular funding.

### 2. Earmarked resources

34. Supplementary funding is often earmarked, in varying levels of detail, to specific uses and beneficiaries, eliminating the flexibility needed to make alternative use of the resources in order to address priorities established at the intergovernmental level for the achievement of the United Nations development agenda, including the Millennium Development Goals. Typically, earmarked contributions are subject to criteria that are determined a priori, reducing the ability of recipients to reallocate the resources to evolving international or national priorities.

### 3. The "gap-filling" role

35. When approved for specific purposes and projects, supplementary funding results in a piece-meal, fragmented approach to development cooperation work. Therefore, the shift to supplementary funding, when combined with the increasing use by some donors of non-United Nations channels of ODA, risks marginalizing the United Nations system to a "gap-filling" role in the implementation of the global development agenda.

### 4. Strategic approach and supplementary funding

36. Supplementary funding may yield higher volumes of resources in a given year but does not necessarily lead to assured multi-year pledging, which is a condition for the effective long-term programming of development cooperation activities. An appropriate application of multi-year financing frameworks may mitigate this problem by establishing a strategic framework that covers both core and supplementary funding.

37. The shift to supplementary funding may result in a situation where large portions of United Nations system development assistance activities fall outside of national and international governance processes. Even where the approval of these contributions depends on some kind of strategic appraisal criteria, these contributions do not allow for systematic resource allocation according to strategic programming criteria and do not facilitate strategic resource allocation according to the United Nations development agenda.

### 5. Increased competition in fund-raising

38. Fund-raising throughout the system is often of a competitive nature, with the different fund-raising capacities of the funds, programmes and agencies competing

for donor funding. Competition in fund-raising is obviously accentuated by the dependence on supplementary funding.

39. This competition can create an incentive for improving the quality of the services provided and gives more flexibility to both donors and programme countries to choose among different operational agents. Excessive competition, however, clearly restricts the space for a strategic approach, even where contributions are generally aligned to overall priorities such as the Millennium Development Goals.

40. Most negotiations for supplementary funding are either bilateral, with one donor at a time, or with small groups of donors. Under these conditions, the risks of distortions in priorities are high, both at the level of the system as a whole, and in relation to the programme thrust and directions of individual organizations. The result may be, and experience shows that it not infrequently is, a concentration of operational work on particular themes that correspond more to donor preferences than to overall programme priorities defined at the national or international levels, thus engaging more agencies than their comparative advantage or priorities defined by their governing bodies would justify.

### 6. Field-level fund-raising and resource allocation rigidity

41. The headquarters dialogue with donor agencies will typically cover both core and supplementary resources. Contacts in the field with the same donor, however, are generally restricted to supplementary resources. The current shift in programming and resource mobilization from headquarters to the field, while a positive development from a number of different vantage points, particularly responsiveness to needs as perceived at the country level, risks to further advance the present movement from core to supplementary funding, thus further increasing rigidity in resource allocation for programming development cooperation activities. Thus, for example, funds raised at the country level may not be used to finance programme expenditures at the headquarters level or in other countries, although the support cost income generated at the country level could cover some related headquarters administrative expenditures.

### 7. Supplementary funding and cost recovery

42. Member States have recently underlined the importance of full cost recovery being applied to supplementary activities, although there is no common and agreed methodology for it. An outstanding question is the extent to which cost recovery should also make a contribution to the basic administrative costs of the organization and to some part of the programme support costs that cannot be clearly attributed to any specific programme activity.

43. As organizations become increasingly dependent on supplementary resources to maintain important parts of their basic infrastructure and to maintain programme operations at a minimal level of critical mass, it would seem appropriate that supplementary resources should cover a fair share of the basic administrative costs of the programme.[9]

# III. Looking ahead: challenges and options

## A. Funding United Nations development cooperation: an entitlement or a response to development challenges?

44. A fundamental question, in considering how to improve the access of United Nations organizations to regular resources, is what should be funded with such resources. Indeed, any meaningful discussion on funding must be founded on a clear understanding of the development mandate of the United Nations system, rooted in the United Nations development agenda, and in the specific role of each of its constituent parts in fulfilling this mandate. Regular funding requirements need to flow both from the system's institutional development mandates as well as the urgent development needs of countries that the system and its constituent parts are called upon to meet.

45. Developing countries, especially the poorest ones, need to strengthen and develop their capacities to meet their economic and social goals through promoting investment, particularly in infrastructure, developing their institutions, introducing economic and social reforms, addressing priority problems of their societies and increasing training and employment. In supporting these efforts, the United Nations system is expected to make full use of all its capacities, knowledge and experience, ensure greater overall coherence in its country-level interventions and improve the integration of its programmes with national development efforts.

## B. Defining the funding requirements

46. One of the key issues underlying discussions on funding is how best to finance the three basic categories of expenditures: programme expenses; programme support costs; and administrative expenses.

47. One of the main problems that most United Nations funds and programmes continue to face, in this regard, notwithstanding the introduction of the multi-year financing frameworks, is that basic administrative costs for their functioning have often been funded, like programme costs, through volatile annual contributions, thereby affecting the overall solidity of their organizational structures, their effectiveness and the quality of their services and programmes.

48. The specialized agencies and other entities using assessed contributions to cover their basic administrative expenses have, as noted above, become "trapped" by rigid and poorly funded regular budgets, while remaining vulnerable to fluctuations in supplementary funding for their development programmes .

49. In order to address this vulnerability, some Member States argue that distinct methodologies and different funding modalities should be used to finance the basic administrative infrastructure and the core programme capacity of the various entities. However, under this approach, there is a high risk of linking administrative budgets to an abstract notion of "core" expenses, embedded in the agency's historical mandates and past budgets, instead of the evolving demands being placed on it.

50. A proper definition of basic administrative costs is key to identifying the total funding requirements of United Nations organizations. At the same time, that

definition cannot be static or mechanistic. Administrative expenses need to be allowed to adjust and expand, while ensuring all possible efficiency gains, to respond to the expansion of demand for development support so that the overall quality and quantity of programme activities does not suffer.

51. Therefore, the best methodology would seem to be one that seeks to arrive at a holistic identification of total funding requirements, starting from a demand-driven, country-based identification of programme needs, derived from the national development strategies as well as the regional and global strategies to which the agency is called on to respond in its area of expertise, in order to maximize its support for the achievement of the United Nations development agenda.

52. Only once these programme needs are identified and the corresponding inputs of resources (financial, human, technological and organizational) are quantified can the administrative requirements of the "core" programme of an agency be properly estimated. The estimation should be related to current resource flows. It should identify gaps and ways to improve the agency's response to country needs and should take due account of the global and regional activities that provide the overall framework of support.

53. Governing bodies should, therefore, seek to set administrative and programme support budgets on the basis of the size of the total programme of the entity concerned and adjust all related administrative support and capacities accordingly.

## C. Sector-wide approaches and budget support: implications for funding the United Nations development system

54. The growing use of sector-wide action plans and budget support as new modalities for delivering development assistance[10] has not only altered the relationship between Governments and donors, it has also raised major questions about the way in which the United Nations system is to interact with these new modalities.[11]

55. While the programmatic implications of these new delivery modalities for United Nations system support are progressively emerging, their implications for the funding of the system's country-level activities remain unclear. If these modalities become the main way of delivering ODA at the country level, their funding implications for the organizations will involve a re-examination by each organization of its comparative advantage and assets at the country-level, so that it can secure the requisite role and an appropriate level of funding within the context of the sectoral programmes. In addition, mechanisms will need to be devised for "reimbursing" the United Nations system for the administrative and other support it provides to these modalities, keeping in mind existing full cost recovery policies.

56. Overall, while the system's interactions with these new delivery modalities, which are typically being pursued by development institutions (both bilateral and multilateral) with larger financial capacity, pose significant challenges for the system, they clearly provide important opportunities for overall progress in relation to both the overall impact of development assistance and its ownership by programme countries.

## D. Funding modalities: voluntary funding, assessed contributions and negotiated replenishments

57. As developing countries and their development partners gear themselves for a major upscaling of efforts to achieve the internationally agreed development goals, and as the debate on financing for development, in particular for the poorest countries, acquires a new urgency, the critical question facing the organizations of the United Nations system is whether they will be able to play their policy, advocacy and capacity-building roles at the optimum level required in this new environment of scaleable actions and results with the traditional funding modalities that they have inherited from the past, or whether there is a need for a fresh look at how the system can be enabled to play its strategic role with the credibility that would come from a stable, predictable, long-term and expanding resource base, based on enhanced efficiency and effectiveness, linking resources with results.

58. Despite the different "core" funding modalities adopted by funds and programmes, the specialized agencies and other United Nations entities, all of them face the same challenge of securing a steadily growing flow of resources for their core budgets that will allow them to meet new expanding requirements.

59. One approach that has been pursued in recent years is to take current funding modalities as given and adopt a short-term funding strategy that maximizes supplementary funding, corrected for a number of elements, as indicated above. This approach has brought increased resources to several United Nations entities, although many outstanding issues remain in terms of aligning the United Nations system development cooperation activities to the pursuit of the United Nations development agenda, including the Millennium Development Goals. In general, supplementary funding, while increasing total resource flows, is not conducive to furthering this alignment, nor does it guarantee the stable, assured, predictable and growing flows of "regular" or "core" resources that the system's agencies require to optimize their contribution to advancing the United Nations development agenda.

60. Other solutions that could be explored include:

(a) **Focusing on the use of multi-year financing frameworks and their link with results-based management.** Although current multi-year financing frameworks, as instruments to strengthen core resource mobilization, have produced mixed results, they are useful tools for addressing, in the same context, the strategic results frameworks and integrated resources frameworks of the organizations of the United Nations system, bringing together both programme and administrative resources. Indeed, the main benefit of the multi-year financing framework approach is that it integrates programme objectives, resources, budgets and outcomes. The multi-year financing framework has the potential to increase core funding by setting clear core funding targets, establishing links between fund-raising and results-based management, and, thus, relating these results with the ultimate objectives being pursued by the organizations concerned.[12] Multi-year financing frameworks thus represent a key framework for securing policy coherence in relation to an organization's performance, relating aggregate demand for its support (based on country-based information) to its response to such demand, regardless of funding sources. The extent to which the multi-year financing framework can serve to advance the enhanced predictability of core funding that the framework allows is linked to the multi-year nature of this instrument. The time has come for Member

States to make full use of the potential benefits of this approach by committing core resources through sustained multi-year pledges over extended periods of time, as indicated in the core resource targets agreed in the multi-year financing framework.

(b) **Assessed contributions for core organizational budgets.** Funds and programmes seeking to increase the reliability of "core" funding could consider introducing a system of assessed contributions for meeting core expenses that guarantee their basic functioning. With appropriate modifications, the current United Nations assessment scale could be applied for this purpose. Membership in each organization would presumably include the obligation to pay the amount of contribution assessed. Provisions allowing for the re-evaluation of core needs, possibly on a yearly basis, should be built into any such system, in order to avoid the rigidity experienced by the specialized agencies in this regard.

(c) **Combining assessed contributions with a voluntary contribution scheme.** This corresponds to the model adopted by UNEP, with its "indicative scale of voluntary contributions", which guides donors in setting their levels of voluntary contributions for the core programme resources. Supplementary activities continue to be financed with separate funding.

(d) **Negotiated replenishments for funding "core" budgets.** This mechanism requires the definition of an integrated programme, on the basis of which replenishments are negotiated. While this approach appears quite complex for small agencies, its value is linked to its capacity to bring about a critical mass of resources. Its feasibility should be well tested before it is launched. One key issue is how to handle burden-sharing among different donors. The international financial institutions have traditionally dealt with burden sharing by linking voting rights and representation on their boards with each donor's share of capital. IFAD's approach involves a system of voting shares that are adjusted when payments are received. In this way burden-sharing as addressed in financial institutions would require major adjustments before application to United Nations agencies, funds or programmes. Although it is unlikely that the pilot introduction of negotiated replenishments, possibly limited to one part of the budget, would significantly modify burden-sharing among donors and bring about substantial change in the short-term, it may serve to start a discussion process between United Nations entities and Member States that could lead to significant funding results in the longer term.

(e) **Negotiated replenishment mechanism for a combination of funds and programmes.** Should United Nations funds and programmes be able to move from harmonized programming to joint programming in the future, the application of the negotiated replenishment modality to their joint programmes would have the advantage of targeting a larger critical mass of resources, thereby saving transaction costs in what is typically a lengthy negotiation process.

61. While it is unlikely that the specialized agencies or entities of the United Nations system that rely on assessed regular budgets would consider introducing voluntary contribution schemes, such as negotiated replenishments, these organizations still need to address the challenge of servicing the growing amount of programme resources received through supplementary (extrabudgetary) funding with stagnant or diminishing core administrative budgets.

62. In one of the most telling cases, the regular budget of a major specialized agency dropped from over two thirds of its total programme resources in the mid-

1990s to less than 30 per cent of the budget forecast for the 2006-2007 biennium. In the present circumstances, there is little incentive for donor countries to adjust these budget policies, especially if, as an alternative, they can simply switch from regular to supplementary funding to support those aspects of the work of the agency they particularly favour. At the same time, the fungibility of funding between regular budget and extrabudgetary resources remains a key issue for most specialized agencies, which are increasingly depending on unpredictable supplementary funding to maintain their critical core machinery. At a time when the pursuit of the United Nations development agenda may well justify repositioning a considerable portion of activities currently funded with voluntary contributions as part of the core work of the system, many agencies are hard pressed to maintain even their historical roles in such areas as norms, standards, advocacy and other core global functions.

63. There should be further reflection on ways to increase the flexibility of current assessment mechanisms in several organizations, for example through alternative modalities inspired by the "indicative scale of voluntary contributions" or the replenishment type of negotiations applied by UNEP and IFAD.

64. These innovative funding modalities could be combined for different organizations of the United Nations system in several alternative ways and harmonized with current modalities. "Assessed contributions" systems, for example, could recast the way in which the components of the assessed budget are defined, with adjustments to the particular needs of individual organizations.

65. The feasibility of these modalities should be further tested. A number of criteria should serve as the basis for these tests:

(a) **Adequacy** of the resource flows allowed by the modality (particularly with respect to the new development tasks faced by the United Nations);

(b) **Reliability, predictability** and **assuredness** of the resource flows (using agreed schedules to assure availability and verifying the "binding" nature of donors' commitments);

(c) **Acceptable burden-sharing** among donors and likely consensus among major contributors.

## E. Towards a system-wide approach to funding

66. It should be possible to conceive of an aggregation of system-wide resource requirements undertaken at the country level, comparing funding requirements of different agencies within the same country and verifying the basis and consistency of the demands for inputs addressed to each of them. Even if this aggregation were to be conducted only for a smaller subset of agencies operating in a country, for example in the context of the United Nations Development Assistance Framework and its respective result matrix, it would increase the knowledge of the activities that the system may be requested to undertake in a country, tying together the different elements of the United Nations Development Assistance Framework resource framework.

67. The quantification of the volume of resources required to fund system-wide activities in one specific country would not by itself bring about a joint system-wide

funding or combined resource mobilization drives, but it could be the first step towards establishing some of the conditions for such an effort.

68. In theory, one could conceive of a process leading to an estimate of a global "development product" to be delivered by the United Nations system as a whole, with corresponding global resource targets, which could then be the object of a "negotiation" such as an indicative pledging negotiation with interested donors or the entire donor community. A process of that type would require the definition of a global "programme package" for the entire United Nations system, which donors would examine and compare with other packages that other development actors would submit to their attention.

69. The aggregation for purposes of establishing a global funding target for all country-level funding requirements of the United Nations system contained in instruments such as the United Nations Development Assistance Framework, along with requirements for regional and global programmes, would need to be clearly linked to the United Nations development agenda, including the Millennium Development Goals, in order to be a compelling instrument for concrete fund-raising.

70. The United Nations system is clearly at a disadvantage, given the fragmented nature of its institutional structures, in that it is not able to bring to the attention of donors a single, comprehensive worldwide "programme package" to negotiate. It does not have a global envelope similar to the one that the International Development Association offers to potential donors, with a comprehensive proposed programme document setting overall levels of resources required, criteria for their allocation and any additional policy indications required. Nor does the system possess at the moment the institutional channels required for this purpose.

71. As more progress is achieved at the country, regional and headquarters levels in the integration and harmonization of the system's work and in its functioning, this aggregation of funding requirements may become feasible as an instrument for effective, collaborative resource mobilization.

# IV. Conclusions

72. The present report has examined various options, some more practical, others more theoretical in the current circumstances, for funding the operational activities of the United Nations system in order to increase its predictability, long-term stability and adequacy, while preserving the advantages of present funding modalities. As they gear themselves to respond to the evolving needs of programme countries and as they seek to meet agreed development goals, including the Millennium Development Goals, United Nations organizations will need to continue to explore and promote the appropriate mixes of voluntary contributions, assessed contributions and negotiated replenishments best suited to their particular circumstances and institutional structures. They should be guided, in doing so, by best practices system-wide and by an assessment, steered by the central United Nations intergovernmental bodies, of solutions that are most conducive to progress in the quality of the services that the system as a whole provides to its membership. An aggregation of United Nations system development financing needs for country, regional and global activities could serve as the basis for a more harmonized dialogue with contributor countries, especially if the aggregation is clearly related to

the United Nations development agenda, including the Millennium Development Goals.

73. While the analysis of the report has focused on issues such as adequacy, predictability, assuredness, burden-sharing and composition of contributions, distinguishing between "core" and supplementary resources, there are broader questions that need to be addressed relating to the overall role of United Nations operational agencies and their comparative advantages vis-à-vis other channels for ODA in accessing ODA funding.

74. The international development architecture is rapidly evolving, presenting both opportunities and challenges. The funding requirements for the United Nations development system should flow from its role and its effectiveness in contributing to genuine progress in implementing its development agenda, including the Millennium Development Goals. The programme activities that the system proposes to undertake should be justified in terms of their coherence with and potential impact on the international as well as the national development objectives that it is called upon to serve.

75. The funding of the United Nations development cooperation should be addressed as an integral part of the effort to maximize support to developing countries in achieving the United Nations development agenda. In this report, country-based, demand-driven approaches, rooted in national priorities, are advocated to quantify funding requirements, since such an approach is closely linked to the comparative advantage and unique characteristics of the operational work of the United Nations system.

76. Possibilities for more collaborative approaches to fund-raising by the United Nations system are also raised, and are linked to progress in coordinating the overall functioning of the system at the country, regional and global levels.

77. The options and innovations in funding modalities outlined in the report should be further discussed at the intergovernmental level in individual agencies and, for the system as a whole, in the context of the Economic and Social Council and the General Assembly, including as part of the follow-up to the High-level Plenary Meeting of the General Assembly in September 2005.

78. **The forthcoming debate on funding options and modalities for financing the operational activities for development of the United Nations system at the operational activities segment of the substantive session of the Economic and Social Council of 2005 should serve to highlight the relevance of these issues to the overall objectives to be advanced at the High-level Plenary Meeting in September. The main message that the Council may wish to convey in this respect is the centrality of these issues, both to the effective pursuit of the development goals of the Millennium Declaration and the capacity of the United Nations system to lend its full support to this effort.**

79. **Member States should be encouraged, as part of the follow-up to the outcome of the High-level Plenary Meeting of the General Assembly, to continue, with renewed determination and commitment and in a spirit of global partnership and solidarity, a high-level political debate on funding issues and modalities to effectively strengthen the development cooperation activities of the United Nations system.**

*Notes*

[1] That target was reaffirmed at the International Conference on Financing for Development. See *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex. See also A/59/2005, paras. 48-53.

[2] A/59/2005, para. 51.

[3] See also the Secretary-General's report for the high-level segment of the Economic and Social Council of 2005 (E/2005/56).

[4] In the "Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability", of 2 March 2005, 91 countries and 25 international organizations made specific pledges to enhance the effectiveness of foreign aid, agreeing to introduce "indicators" to monitor progress in terms of ownership, alignment, harmonization, results and mutual accountability.

[5] See A/60/74-E/2005/57 for a thorough analysis of the trends in "core" and "non-core" resources.

[6] We had to exclude the World Food Programme data from this analysis, since the Programme undertook a major reclassification in 1999 between "core" and "non-core" resources that would have altered the entire exercise.

[7] The functioning of multi-year financing frameworks and their potential to address the problems connected with funding for United Nations development cooperation were analysed in several reports of the Secretary-General. See A/56/70-E/2001/58 and A/57/332. The present report builds on the analysis contained in those reports.

[8] See General Assembly resolution 59/250, para. 20.

[9] WFP has a relatively simple and transparent system in place that ensures that recovery from supplementary contributions covers all incremental costs plus an appropriate share of administrative costs (called "indirect support costs" in WFP terminology).

[10] See the "Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability", on the more recent trends in this domain.

[11] See para. 11 above.

[12] The use of a results-based management approach is found also in other funding mechanisms, for example in the IFAD negotiated replenishment process, which is based on a consultation with Member States on the basis of a discussion of results and impact of the Fund's activities, supported by an intensive use of results-based management and the evidence of evaluation studies.